Senior
Investment Guide

Identifying Investment Risks

Missouri Securities Division
Office of Secretary of State
Robin Carnahan

Investor Protection Hotline: 800-721-7996
www.MissouriSafeSavings.com

Missouri Investor
PROTECTION CENTER
Secretary of State Robin Carnahan

Over 35 million Americans are 65 years of age or older. More than 550,000 Missouri investors are a part of that population, and that group is growing rapidly. Many seniors find themselves in high-pressure, questionable investment situations because con artists tend to prey on investors who have accumulated lifetime or retirement savings. The Missouri Securities Division receives at least one complaint per week from a senior investor alleging potential securities or brokerage fraud or concerning unsuitable investment recommendations.

Wise and Safe Investing

Because your livelihood could be at risk, it's important to educate and protect yourself from unscrupulous brokers or others offering questionable investments. Your best approach is to understand how investments work, what questions to ask before making investment decisions and who to call before entrusting anyone with your hard-earned money.

Define your financial goals.

Map out your financial goals before you meet with a financial planner, broker, investment adviser or any other investment professional. Going to the experts in certain instances will help you decide how to invest your savings, but you should first have a firm grasp of your short- and long-term goals and needs. How much income will you need to meet fixed expenses, apart from any pension or Social Security income? Do you have children or grandchildren to educate? Are your older parents in need of care? How is your own health? You need to determine your own budget needs and assess your ability to tolerate risk first, and then decide what kinds of investments would best fulfill these goals.

This also means you should take time to understand the various investment products you might be considering. If you receive a lump-sum pension payment or an early retirement pay-out, you might feel pressure to invest it quickly in order to avoid adverse tax consequences. Sound investing requires careful consideration. If you need time to fully explore your options, consider putting funds in a money market and then invest once you feel ready to do so. Otherwise, you might be susceptible to high-pressure sales tactics of those who promise to "take care of your problems for you." A quick fix is not the answer in this situation. Your money is too important to lose!

Know your investment professional.

The first step in dealing with an investment professional is to contact the Securities Division of the Missouri Secretary of State's Office. You can reach us by phone at 800-721-7996. Or write to: Missouri Securities Division, PO Box 1276, Jefferson City, MO 65102. You should proceed cautiously if doing business with financial professionals who have an established record of state, federal or self-regulatory disciplinary actions, negative arbitration decisions or civil litigation judgments. The Securities Division staff will gladly review your investment professional's case history for you.

Always take time to interview two or three investment professionals before settling on the one who seems to best understand your needs. Don't assume that a broker who sells investments on the premises of a bank is part of the bank, or is selling products protected by FDIC insurance.

Recognize that a broker who goes by the title "financial consultant," "senior specialist" or "investment counselor" does not necessarily have any training or expertise other than that of selling stocks and bonds. If you are working with an investment adviser, ask to see both parts of the Form ADV. Part One can be helpful, as it provides you with their disciplinary history, which could raise important red flags. The adviser is required to give you Part Two, which sets out their method of compensation, education, areas of expertise, investment strategies and business methods. This should correspond with the information provided by the Securities Division.

Understand your investments.

Focus on the whole range of an investment's characteristics in your decision-making, not simply on promises of a high return. Before you make any investment, you should understand the cost, degree and nature of the risks, investment goals (e.g., income with a high degree of safety), performance history and any special fees associated with the investment. Never assume that your investment is federally insured, low-risk or guaranteed to deliver a certain return.

You should ***not*** rely on oral statements for assurance – get it in writing and make sure you understand the information you are given. Once you have that information, check it against your own goals and risk tolerance to see if the recommended type of investment is a good fit.

The most detailed source of information on an investment product is the prospectus (or similar offering document). Unfortunately, most prospectuses are far too long and too technical for anyone other than a sophisticated investor to comprehend. However, you don't have to read every word to understand the nature and risk of the investment. Pick out the essential information provided in the document to determine if the product is right for you. For a mutual fund, for example, make sure you get answers to the following:

- What are the fund's goals and investment strategies?
- What are the fees and other costs involved, and how do they compare to similar funds?
- How are the costs determined?
- What is the fund's performance and management history? How does it compare with similar funds?
- What are the risks involved with each of the investments in a bond or mutual fund? How does it compare with similar funds?
- Who makes investment decisions for the fund?
- Whom can you call for more information?

These are just some of the questions to ask about a mutual fund. Your local library is a good source for publications and online resources on investing. For example, the Morningstar® research firm publishes detailed analyses of investment products. Missouri's Securities Division and the Securities and Exchange Commission also have brochures providing information about investments.

Know the fee structure.

Understand how your investment professional is making money by selling an investment. If you truly want objective advice, you have to be prepared to pay for it. A fee-only financial planner will charge you a certain amount up front but does not earn income based upon what recommendations he or she makes to you.

On the other hand, brokers and financial planners are paid through commissions, which means that they get a percentage of the money you invest. For example, if you give them $5,000 to invest in a mutual fund, their commission might be 4 percent, or $200, making your actual investment in the fund $4,800. When the commission is deducted from your investment, you lose not only that money, but the investment income it would have earned over time. A good rule to remember is that the amount of commission varies by the type of product and the risk associated with the product. So, in most cases, the higher the risk, the higher the commission.

Just because a broker calls himself a "financial analyst" or "investment consultant" does ***not*** mean that he provides objective financial advice. ***Do not confuse a sales pitch with impartial advice.*** Be wary of brokers who seem overly eager to put you into an in-house mutual fund or in unfamiliar exotic investments. Ask the broker if he or she will receive additional commissions or other incentives (such as a prize or trip) for selling you a certain product.

Beware of uninsured products sold on bank premises.

Exercise particular caution when buying uninsured investments on the premises of a bank. Although a bank may provide you with more convenience and be less intimidating than a brokerage firm, it does not provide you with any more assurance against the possible loss of principal in an uninsured investment. In fact, the brokerage firms affiliated with banks sometimes offer only a limited range of investment options and could be prone to pushing their own products. While you might feel more comfortable dealing with your bank (or someone else doing business there), you should not let convenience guide your decision about where to invest. Securities sold by a bank are not insured by the FDIC. Government mutual funds and government bond funds do not carry any government insurance against loss.

Monitor your account statements.

Make sure you fully understand your account statements. Your account statement should reflect only the pattern of investing that ***you*** have authorized. If you note a discrepancy, raise the problem immediately with your broker or financial professional, and, if necessary, the branch manager who supervises the broker.

Review your account statement to see how your investments have performed and how much they are costing you in terms of commissions and fees. Because you might not be able to find this information on your account statement, contact your financial professional and ask that these be calculated for you, and have the results provided to you in writing. Do ***not*** work with a financial professional who is unwilling to do this, or who claims to be unable to provide this information.

Don't be embarrassed to ask questions about the meaning of unfamiliar terms and abbreviations that appear on your account statement. An investment professional who is unwilling to take the time to answer your questions is probably ***not*** a trustworthy manager for your life savings. Account statements are your primary tool as an investor for policing your investments, so make sure to take full advantage of them.

Call the Investor Protection Hotline.

The Missouri Securities Division offers a toll-free Investor Protection Hotline that any investor can call to obtain information about an investment, stockbroker or investment adviser ***before*** any money is handed over – **800-721-7996**.

Don't Make These Mistakes

The following scenarios, based on some common fraud schemes, illustrate sample situations, and then ask you what's wrong and what warning signs you can identify.

Harry is 70 years old. He retired from a company he worked at for over 20 years. He and his wife Ann live in the same house they bought when they were married. Harry made some money in company 401(k)s and other small investments throughout his life. They live comfortably, but worry what they have might not be enough to last. In fact, Harry would love to leave something for their children and family in the future.

People of all ages are at risk for investment fraud, but because Harry and Ann are seniors, they face increased risk.

Scenario I: Telemarketing Investments

Ann receives a call from a gentleman who asks her to send money immediately for a stock investment in a company Ann has never heard of. He tells her to give him a credit card number, her birth date and social security number. He says the offer is only for a limited time and that the stock is "hot" and if she waits, it will be too late to get in on the deal. He gives her a bogus address and telephone number. Even when she asks, he does not provide information about his credentials or details of the investment. Ann thinks about how great it might be to make a little money.

What's wrong here?

This person used telemarketing to sell a risky investment option and will likely take advantage of people over the phone to receive money fast.

Warning signs:

- Insists money be sent immediately
- Wants credit card number over the phone
- Wants birth date and social security number over the phone
- Says "Make your contribution now or it's too late"
- Avoids or refuses to answer questions
- Doesn't give a good explanation of the stock or the company selling the stock
- Doesn't explain the risk involved

Scenario II: Free Lunch Seminars

Harry and Ann have been invited to attend a free lunch at a nice local restaurant to hear information about retirement and tax planning. When they attend, the seminar leader makes broad claims promising that if they invest in his product now, they will enjoy high returns and no risk. Little written information is available to attendees. The leader approaches Harry and Ann individually after the presentation and asks personal questions about their marriage, finances, current investments, past work experiences and home. He probes and then tells them he will be going out of town soon to offer the opportunity to others, and they won't have the opportunity to contact him if they don't act today. He tells them all of his investors are making money and are "very happy." The seminar leader speaks quickly and is very enthusiastic. He promises that all of their questions will be answered when he sends them the paperwork later. Harry and Ann get excited about an opportunity to quickly increase their retirement savings.

What's wrong here?

This person used a free lunch or seminar to engage in high-pressure sales to people who see the event as an incentive to invest and feel they are being treated specially.

Warning signs:

- The word "free"
- Promises of high returns and no risk
- No brochures or information; must take leader's word
- Asks personal questions
- Going out of town, limited-time offer, limited contact
- High pressure for immediate decision
- All other investors are described as "very happy"
- Fidgets, talks at a high rate of speed or seems overly excitable
- Answers questions vaguely or refuses to answer questions

Scenario III: Real Estate Investments

Harry and Ann have been offered a chance to participate in a new real estate opportunity offered to a select group of people in their area. The individual offering the investment promises that if they invest now, their money will get returns in less than a year and is guaranteed to be risk-free. He shows slides of photos of condominiums on a beach but offers no details about the properties. He tells them this is a limited opportunity, and only a few investors will get this chance. Harry and Ann consider this an opportunity to vacation and get in on the ground floor of a high-return real estate investment.

What's wrong here?

Investments in real estate are often viewed as a "sure thing" with little downside risk. But putting your money into real estate investment contracts or ventures can involve significant risk. Investment scams featuring real estate are on the rise in Missouri.

Warning signs:

- Offered only to a "select group of people"
- Must invest now
- Make money in less than a year
- Claims that the investment is "risk-free"
- Offers few details about the logistics and layout of the property
- Limited opportunity

Ask questions.

Never be afraid to ask questions at any stage in the investment process. You are in control of your money, even if you hire an expert to help you manage it. ***Be careful in deciding to sign over discretion for your account to your broker***, as his or her idea of a "good trade" might not be in your best interest. You have every right to ask a financial professional why he or she is making a certain recommendation to you, what the alternatives are, what the risks are and how much he or she will be paid for the transaction. If you are uncertain about a product, or what you are buying, ask questions until you understand. If someone tries to assure you by stating that the uninsured investment is as safe as the "money in your pocket," it is time to walk out the door...while your money ***is*** still in your pocket!

The Secretary of State's office takes reports of suspicious activity seriously. We investigate complaints and welcome tips. If you think you have been defrauded, please call our office and send a complaint form along with any other relevant documents. You can call the **Investor Protection Hotline** at **800-721-7996**. You're not alone; annually, we receive a number of complaints from senior investors. You could even save someone else from a bad situation.